



Corporate Social Accounting and Social Audit in Indian Context

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Abstract

Social Audit is an independent evaluation of the performance and social responsibility of an organization as it relates to the attainment of its social goals. It is an instrument of social accountability of an organization. In other words, Social Audit may be defined as an in-depth scrutiny and analysis of the working of any public utility vis-a-vis its social relevance. Both Social Audit and Social Accounting are the process that enables an organization to assess and demonstrate its social, economic and environmental benefits and help to discharge social responsibility in proper way. As business organization is a social unit, the society, therefore, expects that business organizations will not injure the society in any manner; on the contrary, like all good members of the society, it will strengthen it. Thus social Audit and Social Accounting both are essential to measure social performance and social responsibilities; through which a business seeks to place a value on the impact on society of its operations. Though it is not compulsory to make these statements and audit, like other top countries some Indian companies like TISCO, CCI, ITC are focusing on social responsibility and also started to make social report for calculating total cost and benefits for performing social responsibility.

Key word: Social Accounting, Social Responsibility, Social Audit.

Introduction

A good deal of research and experimentation is now being conducted to devise techniques which measure the contribution that an enterprise makes to the society. These developments result from an increasing realization of the fact that business undertakings have social responsibilities and their performance as a whole should be seen in this context. Social Audit is an independent evaluation of the performance and social responsibility of an organization as it relates to the attainment of its social goals. It is an instrument of social accountability of an organization. In other words, Social Audit may be defined as an in-depth scrutiny and analysis of the working of any public utility vis-a-vis its social relevance. Both Social Audit and Social Accounting are the process that enables an organization to assess and demonstrate its social, economic and environmental benefits. It provides an assessment of the impact of an organization's non-financial objectives through systematic and regular monitoring based on the views of its stakeholders. A business organization is a social unit for two reasons; *firstly*, its activities vitally affect the society and its members. This is because of the goods and services that it produces and sells and of the fact that large numbers of people spend the major portion of their adulthood working in one organization or another which, in turn, moulds the way in which they act and behave. *Secondly*, it is the society that will determine the parameters within which business will operate. In India, there are some fields in which private business is not allowed to exist at all; there are others which are open to only small scale units. Also, the society provides the infra-structure and the facilities without which business cannot operate at all. The society, therefore, expects that business organizations will not injure the society in any manner; on the contrary, like all good members of the society, it will strengthen it.

In order to discharge of social responsibilities is not something opposed to earning of profits. In fact, unless a firm earns profits and acquires financial strength, it will be in no position to do any social good. Therefore, one may say that the very first social responsibility of a firm is to earn profit in proper way and be strong. As such, it is conceived that profit-earning may be one of the objectives, but not the sole objective. In the latter way, business becomes a good social organ, taking the society forward; in the former manner, it can only impoverish it. This line of thinking has been gradually spreading throughout the countries of the world. Though it is not compulsory to make these statements and audit, like other top countries some Indian companies like TISCO, CCI, ITC are focusing on social responsibility and also started to make social report for calculating total cost and benefits for performing social responsibility. The concept of social responsibility in respect of proper steps to be taken for



scientific use of resources and their conservation, prevention of environment pollution, socio-economic welfare of the workers, etc. has been gradually expanding.

Objectives of the Study

The study has the following objectives

1. To discuss about the conceptual aspects of social accounting and social audit.
2. To identify the scope of social accounting and social audit.
3. To examine how far the business have discharged their social responsibility, that is, how much contribution has been made by the concerns towards social welfare, the different countries including India have started to think about the application of proper method of accounting and audit. Social Accounting and Social Audit are interrelated each other, without proper social accounting, audit is not possible; as well as social audit is compulsory to show the true and fair position of social accounting for performing social responsibilities.

History of Social Accounting

Social Accounting is essential to measure social performance and social responsibilities; through which a business seeks to place a value on the impact on society of its operations. Social Accounting is an expression of company's social responsibilities and requirements of general corporate accountability. It is also known by various names like, social and environment accounting, corporate social responsibility reporting, non-financial reporting etc. Every company has to make social responsibility income statement and balance sheet. But it is not compulsory to make these statements. France, UK and USA are the top countries where social responsibility statements are made with other financial statements. In INDIA social accounting is not so popular but some Indian companies like Tata Iron and Steel Company Ltd.(TISCO), Cement Corporation of India(CCI), Indian Textile Corporation(ITC) are focusing on social responsibility and also started to make social report for calculating total cost and benefits for performing social responsibility with the help of Abt Associate & David F. Linowes approach . The concept of social accounting originated in different forms by *Adam Smith* in 1776, later on, *Karl Marks* and *Engel* also expressed their views about social costs in 1844. *Pigou* in 1920 also elaborated the divergence of social and private costs. The concept of social accounting was clearly introduced in the 1970's and later this concept received serious consideration from professional and academic accounting bodies. Social accounting as an approach began developing in the UK in the early 1970's when the Public Interest Research Group established Social Audit Ltd. This has led to an increasing awareness of CSR, of business success- measuring the business not only in its financial performance, but by its social and environmental impact as well. The conventional measurement of profitability and growth as reflected in the profit & loss statement and the balance sheet is not adequate enough to reveal the extent of contribution a business house has made to the community in discharge of its responsibility to various facets of society. It may perhaps take some more years before to develop suitable techniques for measuring social and community contribution with relative degree of confidence and accuracy. *Abt Associates* evolved a concept in 1972 which provide guidelines to draw social statement of various social events emanating as by-products of business activity. Other examples of early applications include *Laventhol and Horwath*, then a reputable accounting firm, and the First National Bank of Minneapolis (now U.S. Bancorp). Yet social accounting practices were only rarely codified in legislation.

Objectives and scope of Social Accounting

Main objectives of social accounting are to help society by providing different facilities by enterprise and to record them. These are as follows:

1. **Effectives utilization of natural resources:** Main objective of making social accounting is to determine whether the company is properly utilizing their natural resources or not.
2. **Help to employees:** To identify whether the company can help employees by providing the facility of education to children of employees, providing transport free of cost and also providing good working environment conditions.
3. **Help to society:** Industry polluted the environment which is very harmful for society. So, it has to identify whether the enterprise can help the society by planting the trees, establishing new parks near factory area and also opening new hospitals.

4. Help to customers: In social accounting this is the part of benefits given by company to society, whether the company supplies good quality goods at reasonable rate.

5. Help to investors: To identify whether the Company help to investors by providing transparent accounting information, because of many objectives are related to safeguarding of natural resources.

The scope of social accounting is very large since, it can be applied to many areas of social activities. In the absence of clear definition of corporate social responsibility by legislation, individual firm must decide for themselves the nature and cope of their social responsibility. However, with a view to facilitate corporate accountability, Brummet (1973) has find five possible areas in which corporate social objectives may be found and each area of contribution of corporate social activities may be measured and reported. These areas are shown in the Figure below:

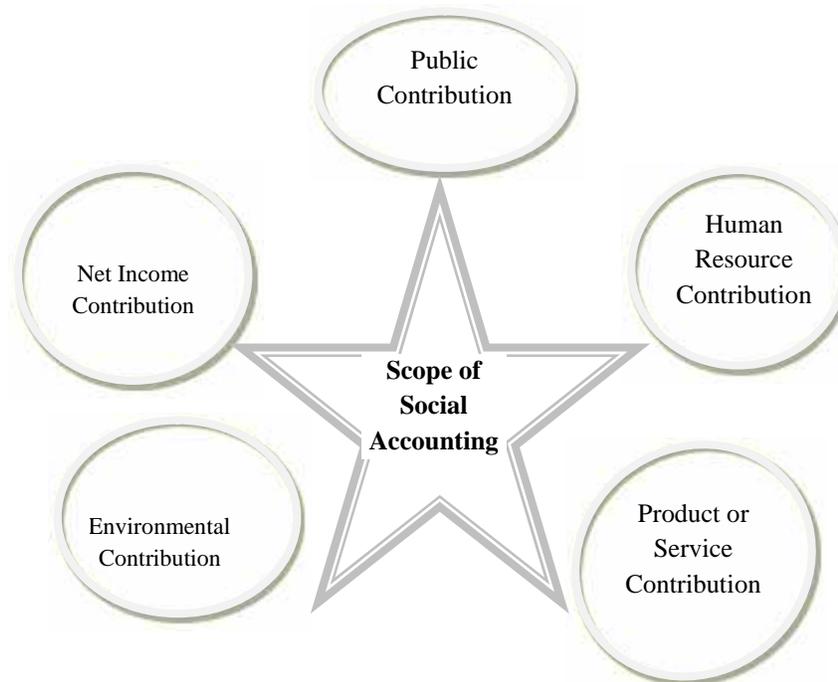


Figure: scope of social Accounting

1. Net Income Contribution:

The basic objective of business is to earn profit. The growing attention towards social activities of the firm will not reduce the importance of profit to the firm. The corporate should ensure that the profit is earned within legal framework that is "profit in a socially acceptable manner".

2. Human Resource Contribution:

It reflects the effect of organization on the human resource of the organization. The organizational activities include: recruitment policies and practices, training, experience building, job enrichment, wage and salary, Congruence of employees and organizational objectives, job safety and Occupational health.

3. Public Contribution:

It reflects the impact of organizational activities on individuals generally outside the organization. The organizational activities include: General Philanthropy, General volunteer community activities, Training and employment of handicapped persons.

4. Environmental Contribution:

It reflects the impact of corporate activities on the environment.

5. Product or Service Contribution:

This area relates to the qualitative aspect of the organization's product or service. It includes product utility, durability of product, product safety, and serviceability as well as the welfare role of the product or service. It also includes customer satisfaction, honesty in advertising their products etc.



Meaning and Definition of Social Audit

As the standards for measuring the total performance of the business enterprises are developed, the need for reviewing such accounting of social performance would also arise. As **Bauer** points out, “the concept of social audit is a vision that at some future time corporations will assess their social performance in as systematic a manner as they now assess their financial performance”. Such audit would be required both for public reporting and for internal management purpose. Therefore, it may be said that social audit is an assessment of the performance of an industry as a whole, vis-à-vis its responsibility. Since, the valuation made as to how much the enterprise has taken from the society and in return how much it gives to the society and the review as to safeguarding of the public of social interest by means of conducting business activities relate to social audit.

Principles of Social Audit

The foremost principle of Social Audit is to achieve continuously improving performances relative to the chosen social objectives. Eight specific key principles have been identified from Social Auditing practices around the world.

1. **Multi-Perspective:** Aim to reflect the views (voices) of all those people (stakeholders) involved with or affected by the organization/department/ programme.
2. **Comprehensive:** Aims to (eventually) report on all aspects of the organization’s work and performance.
3. **Participatory:** Encourages participation of stakeholders and sharing of their values.
4. **Multidirectional:** Stakeholders share and give feedback on multiple aspects.
5. **Regular:** Aims to produce social accounts on a regular basis so that the concept and the practice become embedded in the culture of the organization covering all the activities.
6. **Comparative:** Provides a means whereby the organization can compare its own performance each year and against appropriate external norms or benchmarks; and provide for comparisons to be made between organizations doing similar work and reporting in similar fashion.
7. **Verified:** Ensures that the social accounts are audited by a suitably experienced person or agency with no vested interest in the organization.
8. **Disclosed:** Ensures that the audited accounts are disclosed to stakeholders and the wider community in the interests of accountability and transparency.

These are the pillars of Social Audit.

Program adopted in Social Audit

Experiments have been going on in various countries as to the programme to be adopted for social audit, but till now no standard procedure has been fixed up. Different persons have expressed their opinions differently. But, all are in the opinion that the programme for audit should be framed in such a way that it will be possible to evaluate financially and quantitatively the different activities of the concern. For this, a group of people have advocated to prepare statements concerning socio-economic activities along with the financial statements. On the basis of time, different methods have been evolved to measure the performance of the concern. At the same time, the appraisal of that performance has become necessitated. The statement should disclose expenditure incurred by the concern towards social activities as well as the monetary value of the social benefits evolved out of activities. Similarly, if due to the activities of the concern, social welfare is hampered, it should be expressed in monetary value. However, the activities for which evaluation can be made are given bellow:

- (i) Contribution towards handicapped employees, (ii) Contribution towards other employees, (iii) Contribution towards other backward community, (iv) Contribution towards creation of employment opportunities, (v) Contribution towards proper conservation of resources, (vi) Contribution towards prevention of environment pollution, (vii) Contribution towards the consumers, (viii) Contribution towards adoption of welfare measures for the employees, (ix) Contribution towards rural development.

Benefits and scope of Social Audit

1. Involvement of people in developmental activities ensures that money is spent where it is actually needed.
2. Reduction of wastages.



3. Reduction in corruption.
4. Awareness among people.
5. Promotes integrity and a sense of community among people. Improves the standard of governance.

Social Accounting and Audit in Indian Context

In order to evaluate various programmes in respect of discharging social responsibility, a special method of accounting is needed. But no standard method or system of social accounting acceptable to all has been established so far. Once any standard method is introduced, there arises the necessity of proper examination and verification of such accounting. In different countries, specially in U.S.A., a good number of business undertakings have been disclosing various information, with the submission of annual report in respect of discharging social responsibilities. In India, the Tata Iron and Steel Company Ltd.(TISCO) released in July 1980 the Report of the Social Audit Committee which went the question whether the company had fulfilled the objective contained in clause 3(a) of its Articles of Association regarding its social and moral responsibilities to the consumers, employees, shareholders, society and the local community. The report is largely a descriptive analysis of the performance of the company in the field of discharging its social responsibility. It does not attempt to give a socio-economic operating statement. It cannot be denied that it is a remarkable event in case of social accounting and audit in our country. But, the report has now ceased to be published. Apart from this, in 1978 the Indian Textile Corporation brought out a statement of social accounting as well as social audit. The Cement Corporation of India has been publishing since 1979-80 social income statement and social balance sheet along with the annual report. In Kerala, the state government has taken a decision to introduce Social Audit for local bodies. In this context, it can be mentioned that by virtue of section 227 (4-A) of the companies Act, the central govt. has enforced the Manufacturing and Other Companies (Auditor's Report) Order, 1988.

Conclusion

Governments are facing an ever-growing demand to be more accountable and socially responsible and the community is becoming more assertive about its right to be informed and to influence governments' decision-making processes. Both Social Audit and Social Accounting are the tools through which business world can plan, manage and measure non-financial activities and monitor both internal and external consequences of the departments' social and commercial operations. Social Audit gained significance in India after the 73rd Amendment of the Constitution relating to Panchayat Raj institutions. The approach paper to the Ninth Five Year Plan (1997-2002) emphasizes Social Audit for the effective functioning of the Panchayat Raj institutions and for achieving the goal of decentralization in India. In Kerala, the state government has taken a decision to introduce Social Audit for local bodies. Social responsibility has been assuming increasing importance and there is a growing awareness among the corporate sector these days that every company should contribute positively towards the social goals. At present, almost all the countries of the business world including India have started to think of discharging their social responsibilities efficiently. This type of thinking is essential for maintaining long term existence of the organization.

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